

Village of Wellington, Florida



Investment Performance Review Quarter Ended March 31, 2015

Investment Advisors

Steven Alexander, CTP, CGFO, CPPT, Managing Director
D. Scott Stitcher, CFA, Senior Managing Consultant
Richard Pengelly, CFA, CTP, Senior Managing Consultant
Gregg Manjerovic, CFA, Portfolio Manager
Michael Stewart, Analyst

PFM Asset Management LLC

One Keystone Plaza, Suite 300
North Front & Market Streets
Harrisburg, PA 17101-2044
717-232-2723 • 717-233-6073 fax

300 S. Orange Avenue, Suite 1170
Orlando, FL 32801
(407) 648-2208
(407) 648-1323 fax

Table of Contents

Tab I.

A. Market Review

Tab II.

B. Investment Portfolio Performance

C. Asset Allocation Chart as of March 31, 2015

Tab III. March 31, 2015 Month-End Statement

(statements are available online at www.pfm.com)

PFM Funds March 31, 2015 Month-End Statement

(statements are available online at www.pfmfunds.com)

Tab IV. Surplus Fund Portfolio Transaction Page for the Quarter

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities.

TAB I

Summary

- For the first quarter of 2015, accommodative global central bank policies were a major driver of financial markets. The European Central Bank (ECB) initiated an asset purchase program similar to the Federal Reserve's (Fed's) quantitative easing (QE) policies that concluded last year, and the Federal Open Market Committee (FOMC) seemed to relax its stance on tightening monetary policy in the near future.
- U.S. Treasuries experienced their longest period of quarterly gains since 1998. The 10-year Treasury yield fell for the fifth consecutive quarter.
- After a brief period of recovery, oil prices headed toward the lower end of recent ranges.

Economic Snapshot

- For the fourth quarter of 2014, gross domestic product (GDP) grew at a pace of 2.2%. The components of the GDP report showed that household spending rose to a nine-year high and that an increase in exports was offset by growth in inventories, which were weaker than previously expected.
- The U.S. labor market continued to improve, as the unemployment rate fell from 5.6% in December to 5.5% in March, marking its lowest point since mid- 2008.
- Consumer confidence for the first quarter reached its highest level since the second quarter of 2007, as lower gasoline prices and an increase in personal income helped generate higher amounts of disposable income. However, consumers slowed the pace of their spending for the quarter, as retail sales fell for the months of December, January, and February.
- New-home sales rose nearly 8% in February, marking their highest level since early 2008 and serving as a bright spot in a mixed bag of recent housing-market data.

Interest Rates

- At its March meeting, the FOMC removed the word "patient" from its previous statement, indicating that the current target range for the federal funds rate will be appropriate until the FOMC is "reasonably confident" that inflation is moving toward its 2% objective. The statement also implied that economic growth has been somewhat weaker than it was earlier in the year.
- A Reuters poll released at the end of March showed that 17 of 21 primary dealers expect the first interest rate hike to occur in September at the earliest, with only four dealers expecting the first hike to occur in June.

Sector Performance

- Driven by a Treasury market rally, fixed-income market performance was generally positive for the quarter. Returns were dependent on both maturity and sector.
- The yield curve flattened modestly over the quarter as longer maturities declined further than shorter maturities. This market movement and its positive impact on longer durations combined to provide performance in excess of initial yields.
- Agency spreads for short and intermediate maturities widened modestly during the quarter. Accordingly, the sector's performance was largely in line with comparable-maturity Treasuries.
- Corporate securities slightly outperformed government-related options with similar maturities, as they were aided by excess income and a relatively unchanged yield spread relationship.
- While still generating positive performance, mortgage-backed and asset-backed securities trailed other high-quality investment options for the quarter.
- Yields on money market-related securities remained at the elevated levels to which they rose at the end of 2014, making them attractive options for short-maturity investment needs.

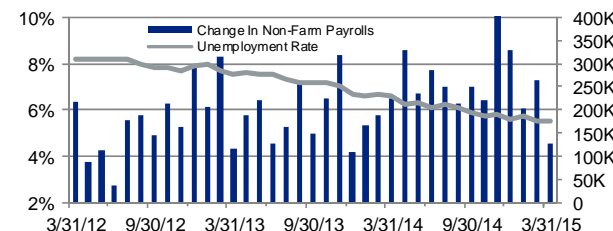
Economic Snapshot

Labor Market		Latest	Dec 2014	Mar 2014
Unemployment Rate	Mar'15	5.5%	5.6%	6.6%
Change In Non-Farm Payrolls	Mar'15	126,000	329,000	225,000
Average Hourly Earnings (YoY)	Mar'15	2.1%	1.8%	2.2%
Personal Income (YoY)	Feb'15	4.5%	4.8%	3.7%
Initial Jobless Claims (week)	3/27/15	268,000	293,000	329,000

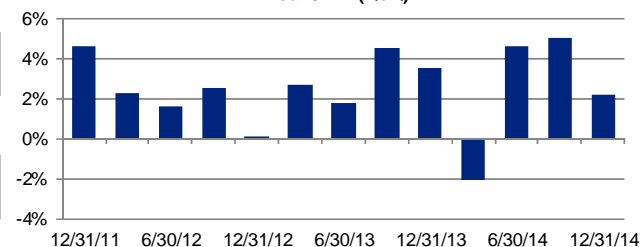
Growth				
Real GDP (QoQ SAAR)	2014Q4	2.2%	5.0% ¹	3.5% ²
GDP Personal Consumption (QoQ SAAR)	2014Q4	4.4%	3.2% ¹	3.7% ²
Retail Sales (YoY)	Feb'15	1.7%	3.3%	4.1%
ISM Manufacturing Survey (month)	Mar'15	51.5	55.1	54.4
Existing Home Sales SAAR (month)	Feb'15	4.88 mil.	5.07 mil.	4.70 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Feb'15	0.3%	0.8%	1.2%
Consumer Price Index (YoY)	Feb'15	0.0%	0.8%	1.5%
Consumer Price Index Core (YoY)	Feb'15	1.7%	1.6%	1.7%
Crude Oil Futures (WTI, per barrel)	Mar 31	\$47.60	\$53.27	\$101.58
Gold Futures (oz.)	Mar 31	\$1,183	\$1,184	\$1,283

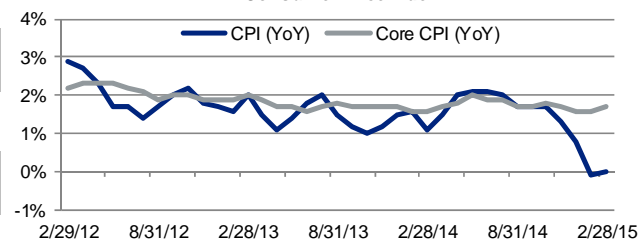
Unemployment Rate (left) vs. Change in Nonfarm Payrolls (right)



Real GDP (QoQ)



Consumer Price Index



1. Data as of Third Quarter 2014

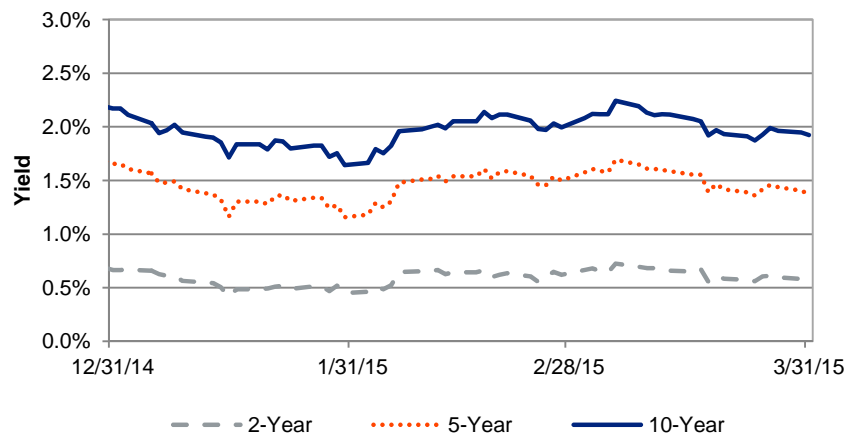
2. Data as of Fourth Quarter 2013

Source: Bloomberg

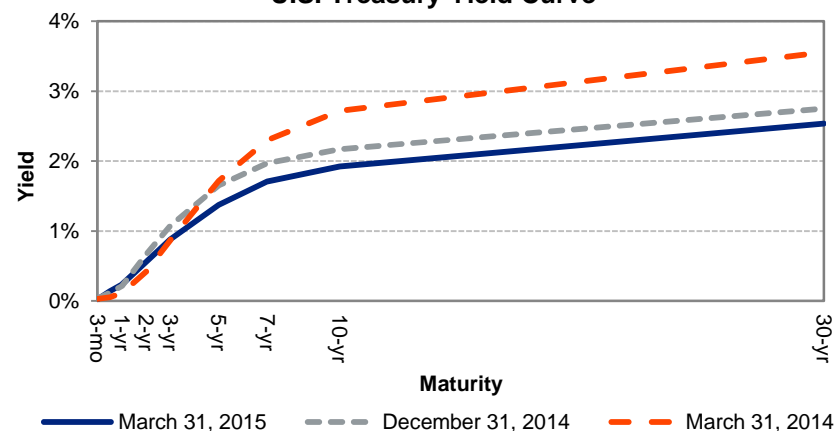
Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

Investment Rate Overview

U.S. Treasury Note Yields



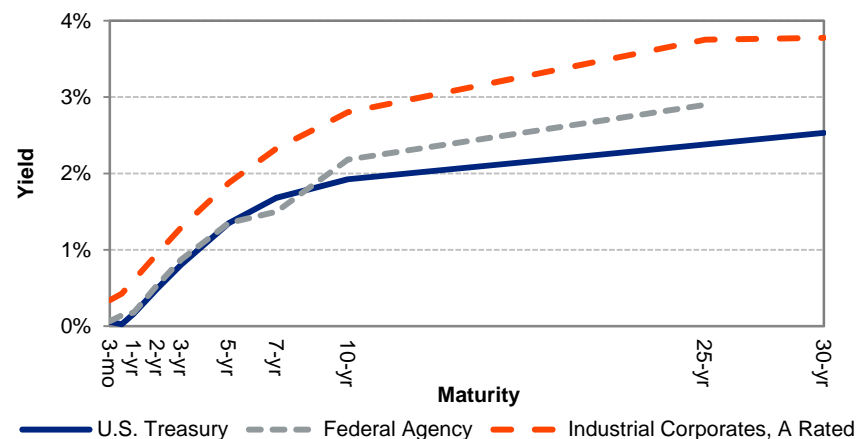
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	3/31/15	12/31/14	Change over Quarter	3/31/14	Change over Year
3-month	0.02%	0.04%	(0.02%)	0.03%	(0.01%)
1-year	0.23%	0.22%	0.01%	0.11%	0.12%
2-year	0.56%	0.67%	(0.11%)	0.42%	0.14%
5-year	1.37%	1.65%	(0.28%)	1.72%	(0.35%)
10-year	1.92%	2.17%	(0.25%)	2.72%	(0.80%)
30-year	2.54%	2.75%	(0.21%)	3.56%	(1.02%)

Yield Curves as of 3/31/2015



Source: Bloomberg

BofA Merrill Lynch Index Returns

	As of 3/31/15		Returns for Periods ended 3/31/15		
	Duration	Yield	3 Month	1 Year	3 Years
1-3 Year Indices					
U.S. Treasury	1.87	0.55%	0.52%	1.00%	0.67%
Federal Agency	1.72	0.68%	0.54%	1.07%	0.74%
U.S. Corporates, A-AAA rated	2.05	1.24%	0.77%	1.43%	1.86%
Agency MBS (0 to 3 years)	2.07	1.36%	0.41%	1.25%	1.18%
Municipals	1.75	0.65%	0.26%	0.73%	0.88%
1-5 Year Indices					
U.S. Treasury	2.69	0.81%	0.92%	1.91%	1.02%
Federal Agency	2.15	0.84%	0.79%	1.77%	1.06%
U.S. Corporates, A-AAA rated	2.87	1.56%	1.20%	2.57%	2.64%
Agency MBS (0 to 5 years)	3.29	1.88%	0.83%	3.79%	2.20%
Municipals	2.54	0.95%	0.35%	1.24%	1.30%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.23	1.33%	1.75%	6.15%	2.57%
Federal Agency	3.72	1.21%	1.27%	4.07%	1.97%
U.S. Corporates, A-AAA rated	6.96	2.52%	2.18%	6.93%	4.84%
Agency MBS (0 to 30 years)	3.78	2.11%	1.00%	5.48%	2.51%
Municipals	6.80	2.18%	1.09%	6.90%	4.23%

Returns for periods greater than one year are annualized.

Source: BofA Merrill Lynch Indices

Source: BofA Merrill Lynch Indices

Disclosures

The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC (PFMAM) at the time of distribution and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFMAM cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or recommendation. The information contained in this report is not an offer to purchase or sell any securities.

Further distribution is not permitted without prior written consent.

TAB II

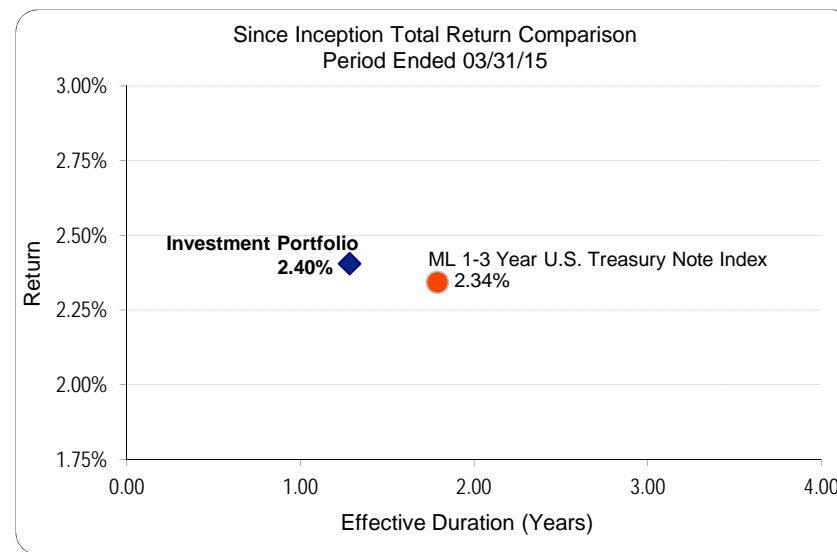
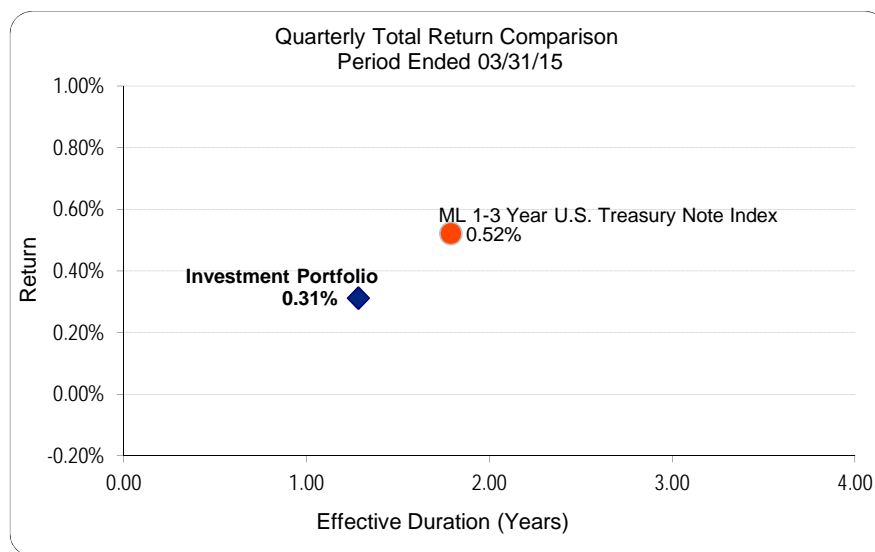
Executive Summary

PORTFOLIO STRATEGY

- The Village's Investment Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency securities, high quality corporate notes, and Commercial Paper.
- PFM continued to actively manage the Village's Portfolio during the first quarter and found value in the market, taking advantage of market inefficiencies or changes in economic outlook. As a result, the Portfolio realized \$1,496 in gains on sales (based on amortized cost) during the quarter. PFM is continually in the market monitoring for opportunities to add value to the Portfolio.
- The Investment Portfolio's quarterly total return performance of 0.31% underperformed the benchmark performance of 0.52% by 0.21%. This underperformance is due to the sizeable difference between the Investment Portfolio's duration and the benchmark's duration. At the end of the first quarter, the portfolio's duration was 72% of the benchmark's duration. Per the Village's request, the portfolio is structured to meet the cash flow needs of the Village whereas the benchmark is structured for a one to three year time period. At this point it serves as more of a comparison rather than a traditional benchmark.
- Macroeconomic conditions in the U.S. moderated throughout the quarter evidenced by lackluster economic data, Greek inspired geopolitical uncertainty, and a FOMC that indicated a tendency for lower rates throughout the period. The market reacted with a Treasury rally that sent yields across the curve generally lower; the impact being greater on longer maturities which continued to reflect persistently low inflation expectations.
- The FOMC has indicated a strong focus on their inflation mandate by removing its "patient" guidance in favor of a need to be "reasonably confident that inflation will move back to its two percent objective." This emphasis on what continues to be stubbornly low inflation, combined with the FOMC's more conservative projections for the future trajectory of the federal funds rate, formulates our market view that rates will remain in their current range in the coming months. With this expectation, we will maintain portfolio durations closer to their respective benchmarks in an effort to maximize investment income.
- We expect volatility to continue throughout the quarter; particularly around the announcement of key economic releases as market participants digest the impact not only on the timing of an initial FOMC rate hike, but also on the pace and rate of subsequent hikes as well. In a potentially turbulent market environment, we will respect well defined trading ranges; adding duration when rates are elevated, and remaining patient when rates are restrained. Additionally, we will stress security selection, exposure to non-government sectors, and yield curve placement, as we believe those factors will be the primary drivers of performance.
- PFM will continue to navigate the market environment with a keen focus on relative value sector analysis, prudent duration management, and efficient yield curve placement. While producing strong investment returns remains a priority, it is secondary to maintaining safety and liquidity, particularly in the current environment where we expect yields to trend higher.

Investment Portfolio Performance

Total Portfolio Value¹	March 31, 2015	December 31, 2014				
Market Value	\$82,989,621.71	\$80,734,225.87				
Amortized Cost	\$82,820,129.51	\$80,715,527.12				
Total Return^{2,3,4,5}	Quarterly Return March 31, 2015	Last 12 Months	Last 2 Years	Last 5 Years	Last 10 Years	Since Inception on March 31, 2004
Investment Portfolio	0.31%	0.66%	0.52%	0.79%	2.61%	2.40%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	0.52%	1.00%	0.69%	1.02%	2.62%	2.34%
Effective Duration(Years)^{4,5}	March 31, 2015	December 31, 2014			Yields	
Investment Portfolio	1.28	1.20			Yield at Market ⁶	0.43%
Merrill Lynch 1-3 Year U.S. Treasury Note Index	1.79	1.82			Yield at Cost ⁷	0.45%
Portfolio Duration % of Benchmark Duration	72%	66%			SBA Yield	0.18%
						0.16%

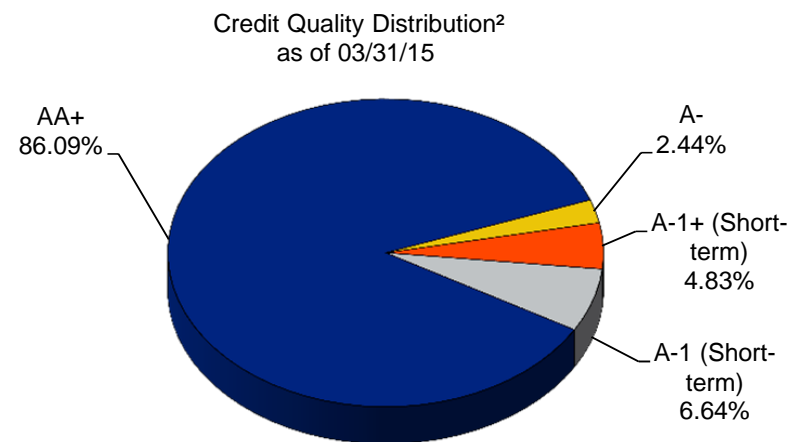
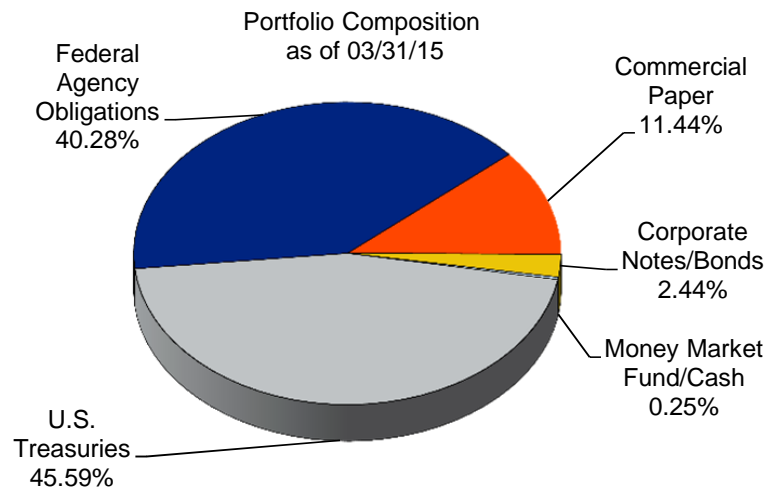


Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment Performance Standards (GIPS). Quarterly returns are presented on an unannualized basis. Returns presented for 12 months or longer are presented on an annual basis. Past performance is not indicative of future results.
3. Since Inception the benchmark has been the Merrill Lynch 1-3 Year U.S. Treasury Note.
4. Merrill Lynch Indices provided by Bloomberg Financial Markets.
5. Includes money market fund/cash in performance and duration computations.
6. YTM at Market: The yield to maturity at market is the rate of return, based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated on percentage.
7. YTM at Cost: The yield to maturity at cost is the expected rate of return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated in percentage.

Investment Portfolio Composition and Credit Quality Characteristics

<u>Security Type¹</u>	<u>March 31, 2015</u>	<u>% of Portfolio</u>	<u>December 31, 2014</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$37,837,319.74	45.6%	\$33,786,445.24	41.8%
Federal Agencies	33,429,309.03	40.3%	33,370,667.50	41.3%
Commercial Paper	9,494,474.00	11.4%	13,491,310.00	16.7%
Certificates of Deposit	0.00	0.0%	0.00	0.0%
Bankers Acceptances	0.00	0.0%	0.00	0.0%
Repurchase Agreements	0.00	0.0%	0.00	0.0%
Municipal Obligations	0.00	0.0%	0.00	0.0%
Corporate Notes/Bonds	2,023,756.98	2.4%	0.00	0.0%
Mortgage Backed	0.00	0.0%	0.00	0.0%
Money Market Fund/Cash	204,761.96	0.2%	85,803.13	0.1%
Totals	\$82,989,621.71	100.0%	\$80,734,225.87	100.0%

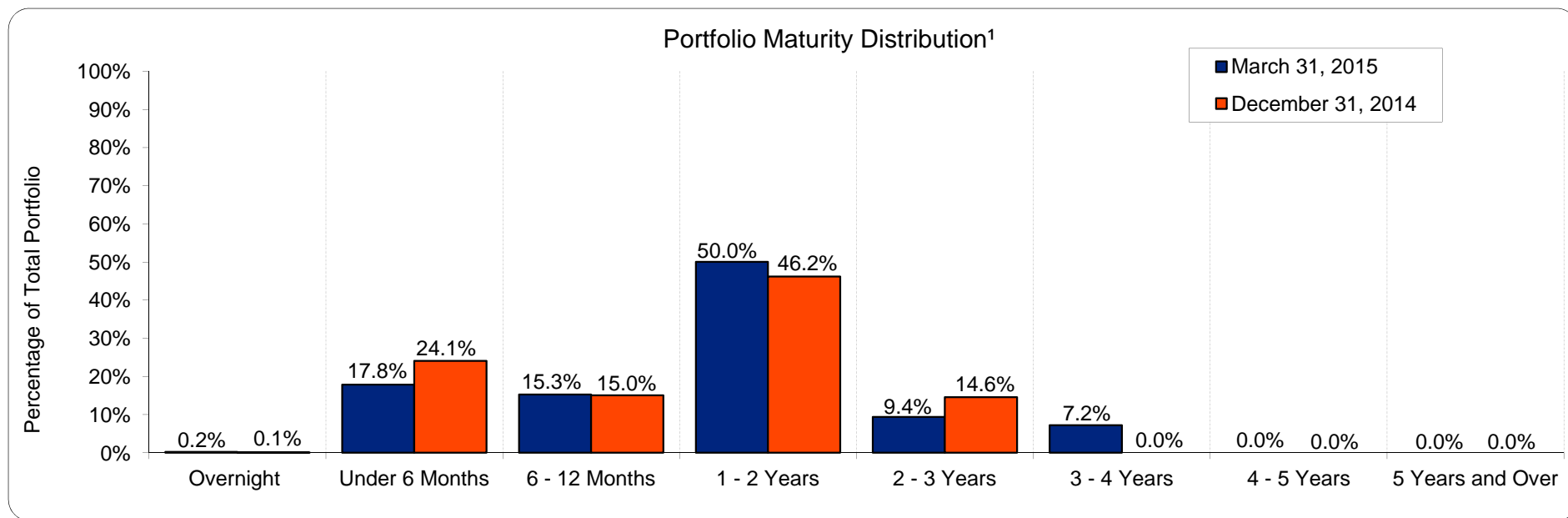


Notes:

- End of quarter trade-date market values of portfolio holdings, including accrued interest.
- Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

Investment Portfolio Portfolio Maturity Distribution

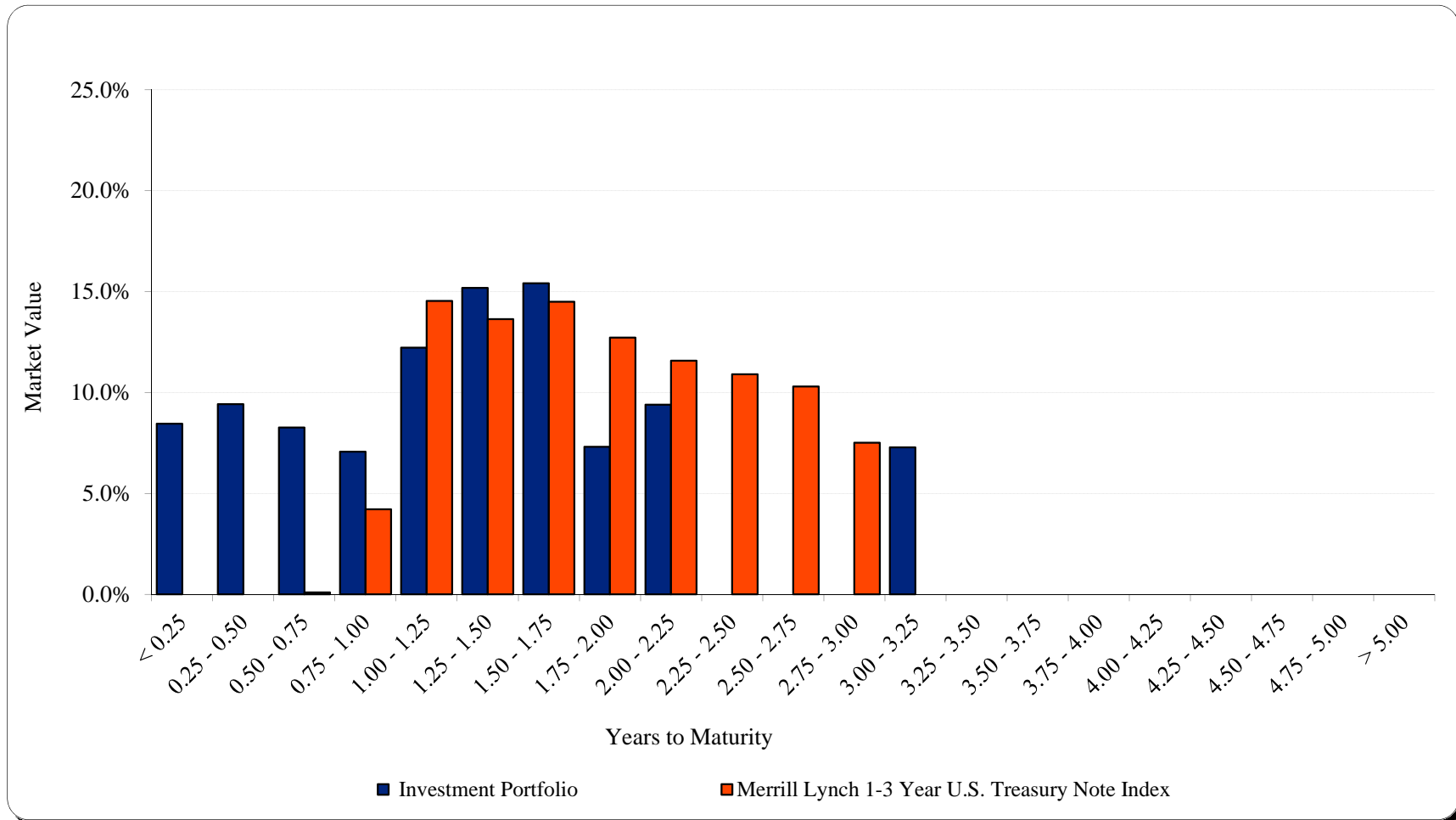
<u>Maturity Distribution¹</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Overnight (Money Market Fund)	\$204,761.96	\$85,803.13
Under 6 Months	14,798,372.35	19,431,007.39
6 - 12 Months	12,686,878.07	12,138,287.09
1 - 2 Years	41,504,865.19	37,308,127.23
2 - 3 Years	7,779,371.16	11,771,001.03
3 - 4 Years	6,015,372.98	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
Totals	\$82,989,621.71	\$80,734,225.87



Notes:

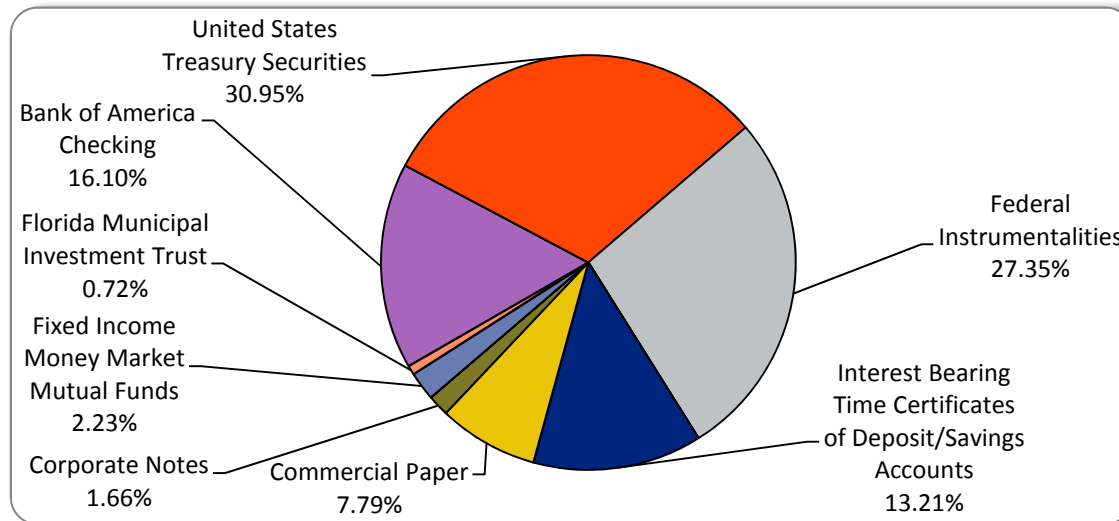
1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Investment Portfolio Maturity Distribution versus the Benchmark¹



Notes:

1. Due to the nature of the security, Mortgage-Backed Securities are represented based on their average life maturity rather than their final maturity.



Security Type ¹	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Bank of America Checking	19,632,917.44	16.10%	2,3	100%	YES
Florida SBA Prime Fund	-	0.00%	3	25%	YES
United States Treasury Securities	37,744,762.16	30.95%		100%	YES
United States Government Agency Securities	-	0.00%		50%	YES
Federal Instrumentalities	33,353,503.62	27.35%	4	80%	YES
Mortgage-Backed Securities	-	0.00%	4	20%	YES
Interest Bearing Time Certificates of Deposit/Savings Accounts	16,106,647.22	13.21%	2,3	25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	9,493,483.60	7.79%		25%	YES
Corporate Notes	2,023,618.17	1.66%		15%	YES
Bankers' Acceptances	-	0.00%		25%	YES
State and/or Local Government Debt	-	0.00%		20%	YES
Fixed Income Money Market Mutual Funds	2,714,171.49	2.23%		50%	YES
Florida Municipal Investment Trust	873,019.12	0.72%	3	15%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.

2. Assets invested in overnight demand deposit accounts with Qualified Public Depositories are collateralized in accordance with Florida Statutes Chapter 280.

3. Managed by the Village.

4. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of March 31, 2015 is 27.35%.

* All Assets

Individual Issuer Breakdown	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
Government National Mortgage Association (GNMA)	-	0.00%		25%	YES
Federal Farm Credit Bank (FFCB)	-	0.00%		40%	YES
Federal Home Loan Bank (FHLB)	12,812,777.11	10.51%		40%	YES
Federal National Mortgage Association (FNMA)	17,519,010.60	14.37%		40%	YES
Federal Home Loan Mortgage Corporation (FHLMC)	3,021,715.91	2.48%		40%	YES
American Express Company Corporate Notes	2,023,618.17	1.66%		5%	YES
Bank of Tokyo Mitsubishi, Inc. Commercial Paper	2,495,868.05	2.05%		5%	YES
General Electric Company Commercial Paper	3,999,088.88	3.28%		5%	YES
PNC Financial Group Commercial Paper	2,998,526.67	2.46%		5%	YES
Fidelity (BONY) Money Market Fund	204,761.96	0.17%		25%	YES
Bank of America Operating	19,632,917.44	16.10%	2,3	100%	YES
Bank of America Money Market Savings	16,106,647.22	13.21%	2,3	15%	YES
FMLvT - Intermediate	771,687.59	0.63%	3	15%	YES
FMLvT - 1-3 years	101,331.53	0.08%	3	15%	YES
PFM Funds Government Series Money Market Fund	2,509,409.53	2.06%		25%	YES

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
2. Assets invested in overnight demand deposit accounts with Qualified Public Depositories are collateralized in accordance with Florida Statutes Chapter 280.
3. Managed by the Village.
4. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of March 31, 2015 is 27.35%.

* All Assets

TAB III

Insert Month End Statement here to complete the report.

In consideration of the safety and security of our client's sensitive information, PFM Asset Management's compliance department does not allow the inclusion of month end statements in any electronic communication including this version of the quarterly performance report.

Statements are available online at **www.pfm.com** login and click on the link to "Monthly Statements" on the left side of the screen.

PFM Funds statements are available online at **www.pfmfunds.com**

The most current statements are always available to the client online, however they can only be accessed with the designated username and password.

TAB IV

Insert Transaction Page here to complete the report.

In consideration of the safety and security of our client's sensitive information, PFM Asset Management's compliance department does not allow the inclusion of month end statements in any electronic communication including this version of the quarterly performance report.

Transactions are available online at **www.pfm.com** login and click on the link to "Month to Date Transactions" on the left side of the screen.

The most current transactions are always available to the client online, however they can only be accessed with the designated username and password.